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Ex. 31-e

"Copy"

19 September 1947

MEMORANDUM TO MR. DILLEY:

Subject:

I am somewhat confused over the "new" policy which says we will not cut below the point of technological efficiency. That statement standing alone does not mean very much to me and I am in hopes that you might be able to clear it up. In order to understand where the line of technological efficiency is, we will have to get the answer to several other questions. First among those questions is, who makesthe determination? That is very important because I predict that if you ask 10 different people where the line of technological efficiency in any given industry is, you will get 10 different answers. A reasonably accurate answer could be given only by a group of impartial industrial engineers and I doubt if they would agree among themselves.

Other factors come into the picture. Do we base our decision on profits and, if so, how much profit are we going to allow -- 5%, 15% or 25%? If profits are to be the gauge, would we settle on a percentage customary in Germany, in the United States, or in some other country?

Or, if not profits, will we tie the formula in some way to productive capacity? Will we say, for instance, that Henschel has a productive capacity for 50 locomotives a year and we cannot reduce that capacity although it is perfectly apparent to all that they would not be allowed to produce anywhere near that number of locomotives in the next 5 years any way? That would seem to be saying that it is our policy to freeze productive capacity and hold it intact for the combines against the day when normal times return. What we want to do, of course, is to release productive capacity on the competitive market and I should think it would put us in an absurd position if we used a formula of our invention to defeat the very purposes of the decartelization program.

It seems to me that what this policy really means is that we must try to be reasonable men rather than unreasonable men; that we must ascertain the facts in each situation and try to shape our solution around those facts. Such a policy has my wholehearted support but I am afraid if we try to reduce such a policy to a formula which talks in terms of technological efficiency, we merely pass into the hands of others a very convenient club with which they can beat us over the head on all occasions.

JOHNSTON AVERY

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